

# **Peterborough City Council Audit results report**

Year ended 31 March 2019

4 July 2019

4 July 2019



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Peterborough City Council (the Authority) for 2018/19. We will issue our final report following the Audit Committee meeting on 15 July 2019.

We have substantially completed our audit of the Authority for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4 of this report, before the end of July. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 15 July 2019.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel', written in a cursive style.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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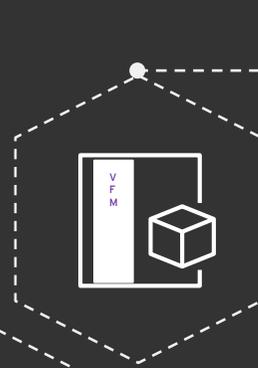
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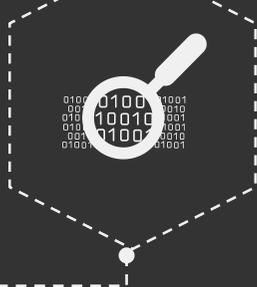
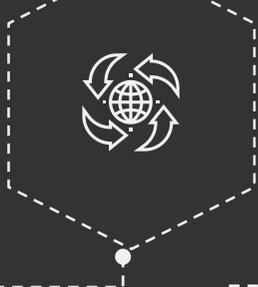
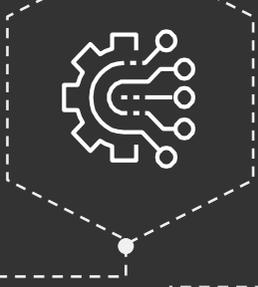
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



# 01 Executive Summary

# Executive Summary

## Scope update

In our audit plan presented at the 11 February 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ Changes in materiality - We updated our planning materiality assessment using the draft statement of accounts and have also reconsidered our risk assessment. Based on our materiality measure of 1.8% of gross expenditure on provision of services, we have updated our overall materiality assessment to £9.3 million (audit plan – £10.0 million). This results in updated performance materiality, at 75% of overall materiality, of £7.0 million, and an updated threshold for reporting misstatements of £0.467 million.
- ▶ Since February 2019, we have recognised two new significant risks:

New risk identified	Detail of changes to our scope
Financial Statements - Minimum Revenue Provision	<p>The Authority must make an annual contribution from revenue to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP). The MRP is determined prudently in accordance with statutory guidance.</p> <p>During the latter part of the financial year, the Authority's approach to MRP has been subject to media attention as well as scrutiny from the Ministry of Housing, Communities &amp; Local Government (MHCLG). As a result we have updated our risk assessment of the financial statements and identified the MRP calculation as a significant risk.</p>
Value for Money - Procurement arrangements following the Authority review of the 2014 IT Strategy	<p>During the year the Authority informed us of issues that they identified with the formation of the 2014 IT Strategy and its delivery, in particular in respect of procurement arrangements. We updated our value for money risk assessment to recognise this as a significant risk and have carried out appropriate procedures to inform our value for money conclusion.</p>

As disclosed in the audit plan these additional risks are likely to result in additional audit fees which will be agreed in advance with S151 officer and then PSAA.

We include a summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit in Appendix A.

# Executive Summary

## Status of the audit

We have substantially completed our audit of the Authority's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- ▶ Clearance of I&E sample testing - awaiting information from officers on the final transactions
- ▶ PPE valuations work - awaiting information on one asset from officers and subject to final internal review process
- ▶ Clearance of issues arising from technical review of the accounts
- ▶ Clearance of all queries on our audit query log
- ▶ Review of the final version of the financial statements
- ▶ Completion of our final review processes
- ▶ Completion of subsequent events review
- ▶ Receipt of the signed management representation letter
- ▶ IAS19 procedures on the pension disclosures (still awaiting the response from the pension fund auditor)
- ▶ WGA: completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

In addition to the above, there is an ongoing national issue which may require a late change to the Authority's reporting of its participation in the local government pension scheme. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft accounts have recognised this matter as a contingent liability (note 42, page 74). However, since the year-end there have been increasing indications that this may not be the correct treatment, and may need to be incorporated into the assessment of the scheme liabilities depending on the materiality of the issue. We will continue to liaise with officers on the outcome of this matter.

We expect to issue the audit certificate after we issue the audit opinion, once the WGA submission has been completed.

## Audit differences

At the date of this report there are no unadjusted audit differences arising from our audit.

During the audit we have identified audit differences in the draft financial statements which management has chosen to adjust. The only material adjustment identified during our work related to PPE where assets disposals valued at £21.7m had been omitted from the accounts in error. Details can be found in Section 5 Audit Differences.

# Executive Summary

## Areas of audit focus

Our audit plan identified key areas of focus for our audit of the Authority's financial statements. As outlined on page 6, we have since identified further risks. In total we have identified five significant risks and three areas of audit focus. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure and REFCUS	We have completed our testing and found no indications that revenue expenditure and REFCUS have been inappropriately charged to capital
Misstatements due to fraud or error - incorrect application of capital grants	We have completed our testing and found that for the sample of capital grants we review, they were correctly applied.
Valuation of property, plant and equipment assets under depreciated replacement cost model	We have carried out our procedures including review of a sample of valuations by our EY Real Estates specialist. We are currently discussing with officers a non-material issue before reaching our conclusion. Subject to final internal review.
PFI accounting	We have completed our procedures including review by our EY PFI specialist and have no issues to report.
Minimum Revenue Provision (MRP) accounting	Our EY MRP specialist has completed the review and we are satisfied that the MRP accounting is appropriate.
Area of audit focus	Findings & conclusions
Valuation of other land & buildings & investment properties	We have completed our testing and identified no issues to report.
Pension liabilities	We are completing our review but await the outcome of the McCloud issue before concluding.
Implementation of new accounting standards	We have considered management's impact assessment and are satisfied that the Authority has implemented the new standards appropriately.

This report sets out our observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues; and
- ▶ You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

# Executive Summary

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, during the audit we identified three minor observations and improvement recommendations in relation to management's financial processes and controls:

- ▶ Controls should be implemented that reconcile the schools payroll balances to the Authority's general ledger system;
- ▶ The Authority's housing benefits risk based verification policy should be formally approved annually as per the housing benefit and council tax benefit circular S11/2011 paragraph 15; and
- ▶ There were some omissions on the Authority's contracts register. Therefore we would recommend regular review to ensure this is kept up-to-date.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our audit plan we identified a significant risk relating to the challenges facing the Authority to address longer term financial resilience issues. Whilst these challenges are similar to other authorities, the scale appears more significant for Peterborough with the Authority identifying large gaps in future funding requirements. The financial resilience risk we identified impacted two aspects of the value for money arrangements - taking informed decisions and deploying resources in a sustainable manner.

During the audit we also identified an additional value for money risk in relation to procurement arrangements as communicated in the "Scope Update" section above. This additional risk impacted two aspects of the value for money arrangements - taking informed decisions and working with partners and other third parties.

We have included in Section 6 the detailed work we carried out in response to these risks. Whilst we are satisfied that the Authority has proper arrangements in place in respect for taking informed decisions, deploying resources in a sustainable manner and working with partners and other third parties we do also highlight that, despite these arrangements, there remain risks around the financial resilience of the Authority and its ability to meet future gaps in funding requirements.

## Other reporting issues

We have reviewed the information presented in the 2 July 2019 version of the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the time of writing, we had only just received the Group Audit instructions from the NAO. We will complete this work in August ahead of the deadline of 13 September 2019. We have no other matters to report.

## Independence

We have no matters relating to our Independence to bring to your attention. Section 10 includes our update.

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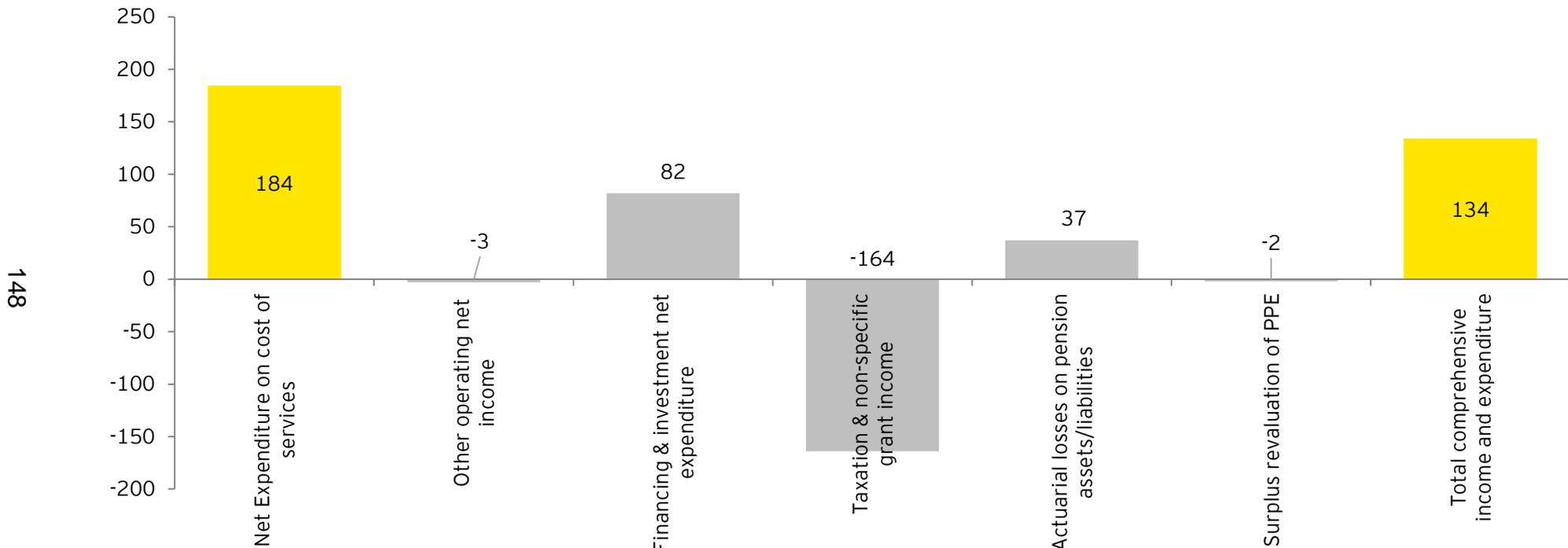
## Understanding Financial Statements



# Understanding Financial Statements

## Key components of net expenditure

Net expenditure on cost of services for the year ended 31 March 2019 was £184 million, an increase of £10 million from the prior year. During the year significant events have occurred with an impact on the underlying financial position of the Authority. The following provides an overview of the material items:



The following provides an overview of the material items:

- Gross income of £486 million is comprised of government grant income of £261 million, Council Tax of £75 million, Business Rates of £45 million and other service income (including fees and charges) of £105 million.
- The majority of grant income is Dedicated Schools Grant of £98 million, Revenue Support Grant of £15 million, Housing Benefit Subsidy of £54 million and Capital Grants of £22 million.
- Total gross expenditure on cost of services of £586 million relates largely to staff costs of £143 million, service expenses of £396 million, interest payments of £18 million and depreciation of £29 million.



# 03

## Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure and REFCUS

##### What is the risk?

The Authority is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.

In 2018/19 the Authority has incurred £95.9 million capital expenditure (of which REFCUS represented £20.5 million).

##### What judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts.

We have focused on the Authority's judgement that an item is capital expenditure in nature and the judgement that expenditure treated as REFCUS is associated to an asset not owned by the Authority.

##### What did we do?

Our approach focused on:

- ▶ Sample testing additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;
- ▶ Sample testing REFCUS transactions to ensure they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state; and
- ▶ Using our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

##### What are our conclusions?

- ▶ Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value.
- ▶ Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified.
- ▶ Our sample testing of REFCUS transactions found that they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state.
- ▶ Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.





# Areas of Audit Focus

## Significant risk

### Misstatements due to fraud or error - incorrect application of capital grants

#### What is the risk?

The Authority is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets. We consider the risk applies to the application of capital grants in the financial statements. Regulations are varied and complex, resulting in a risk that management misstate accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning the application of capital grants.

In 2018/19 the Authority applied £38.0 million of capital grants and contributions.

#### What judgements are we focused on?

We have identified a specific risk of misstatements due to fraud or error that could affect the income and expenditure accounts and the balance sheet.

We have focused on the Authority's judgements in respect of the application of capital grants.

#### What did we do?

Our approach focused on:

- ▶ Sample testing the application of capital grants to ensure they met the definition of capital expenditure;
- ▶ Sample testing capital grants received in advance to ensure any conditions had been correctly applied; and
- ▶ Using our data analytics tool to identify and test journal entries adjustments that impact capital grant accounts.

#### What are our conclusions?

- ▶ Our sample testing of the application of capital grants confirmed that they met the definition of capital expenditure.
- ▶ Our sample testing of capital grants received in advance found that conditions had been correctly applied.
- ▶ Our data analytical procedures performed to identify and test journal entries adjustments that impact capital grant accounts did not identify any issues.





## Areas of Audit Focus

### Significant risk

#### Valuation of property, plant and equipment assets under depreciated replacement cost model

##### What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the PPE balances held in the balance sheet. For assets valued using depreciated replacement cost (DRC) this risk is heightened due to the specialised nature of the assets and insufficient availability of market-based evidence to assist the valuation.

As the Authority's DRC asset base is significant (£246 million), and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

##### What judgements are we focused on?

We have identified a specific risk of misstatements due to fraud or error that could affect the balance sheet.

We consider the risk applies to the valuation of property, plant and equipment using the depreciated replacement cost method in the balance sheet.

##### What did we do?

Our approach focused on:

- ▶ The adequacy of the scope of the work performed by the Authority's valuer, their professional capabilities and the results of their work;
- ▶ Sample testing key judgements used by the valuer in performing their DRC valuations;
- ▶ The use of EY valuation specialists to review a sample of the underlying assumptions used to value any material specialist DRC assets;
- ▶ Review of DRC assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- ▶ Consideration of useful economic lives in the most recent valuation; and
- ▶ Testing that accounting entries had been correctly processed in the financial statements.

##### What are our conclusions?

Our consideration of the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work did not identify any issues.

Through our sample testing of key judgements used by the valuer in performing their DRC valuations, including use of our EY valuation specialists, we did identify some issues which resulted in the valuations falling at the ends of the tolerance range set by our specialists. However, as the valuations were within the range and we did not identify any evidence of management bias or manipulation, we have concluded that the valuations are materially correct.

Our review of DRC assets not subject to valuation in 2018/19 (59% of the total DRC assets) confirmed that the remaining asset base was not materially misstated.

Our consideration of the useful economic lives in the most recent valuation did not identify any issues.

Accounting entries have been correctly disclosed.

Subject to final internal review.



# Areas of Audit Focus

## Significant risk

### PFI accounting

#### What is the risk?

The Authority has a material PFI arrangement for three secondary schools in Peterborough. PFI accounting is a complex area. We undertook a detailed review of the arrangements in 2015/16 and concluded that the accounting disclosures were materially correct. Given the complexities involved we have identified a need to undertake a technical review of the accounting arrangements by an EY PFI specialist to ensure the arrangements are still operating effectively.

In 2018/19 the Authority reported future PFI repayments totalling £171.0 million in the financial statements.

#### What judgements are we focused on?

We have identified a specific risk of misstatements due to fraud or error that could affect the balance sheet.

We have focused on the Authority's judgement that the variables in the PFI accounting model (such as RPI) remain consistent with the PFI operating model.

#### What did we do?

Our approach focused on:

- ▶ Making enquiries to management in respect of any changes to arrangements and the calculation of annual payments and the PFI liability in the balance sheet; and
- ▶ Using our PFI specialists to review the operating and accounting models for the schemes to ensure these were operating effectively and consistent with the disclosures in the financial statements.

#### What are our conclusions?

Our audit testing confirmed that there were no audit issues in the calculation of the PFI annual payments or the liability held in the balance sheet.

In addition our PFI specialist was able to confirm that the operating and accounting models did not contain any material audit issues and that they were consistent with the disclosures in the financial statements.





## Areas of Audit Focus

# Significant risk

### MRP accounting

#### What is the risk?

The Authority must make an annual contribution from revenue to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP). The MRP is determined prudently in accordance with statutory guidance.

During the latter part of the financial year, the Authority's approach to MRP has been subject to media attention as well as scrutiny by Ministry of Housing, Communities & Local Government (MHCLG). As a result we have updated our risk assessment of the financial statements and identified the MRP calculation as a significant risk.

#### What judgements are we focused on?

We have focused on the Authority's judgement that it has calculated its minimum revenue provision appropriately.

#### What did we do?

Our approach focused on:

- ▶ Testing the application of MRP to ensure the calculation met the statutory guidance;
- ▶ Re-performing the MRP calculation; and
- ▶ Engaging our EY MRP technical specialist to review the Authority's MRP policy and disclosure.

#### What are our conclusions?

Our testing confirmed that the MRP calculation met the statutory guidance.

Our re-performance of the MRP calculation did not identify any material misstatements although we did identify some trivial adjustments which would need to be applied in future periods to ensure a cumulative material error does to arise.

Our review of the MRP policy and disclosure did not identify any material audit issues.





## Areas of Audit Focus



### Other Areas of Audit Focus - Valuation of Other Land and Buildings and Investment Properties

The fair value of non-DRC Property, Plant and Equipment (PPE) (£318m) and Investment Properties (IP) (£29.6m) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Authority engages an external expert valuer who applies a number of complex assumptions. Annually, PPE are assessed to identify whether there is any indication of impairment (i.e. a reduction in their carrying value).

As the Authority's asset base is significant, and the outputs from the valuer are subjective, there is a risk that the fair value of PPE may be under or overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

This risk relates to assets that are revalued, being other land and buildings (non-DRC), surplus assets and investment properties. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost.

Our approach has focused on:

- ▶ Considering the work performed by the Authority's valuers, Wilks, Head and Eve (WHE) and NPS Peterborough, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Reviewing and sample testing the key asset information provided by the Authority to the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre, leasing agreements for the estimated rental income);
- ▶ Reviewing and sample testing the key assumptions used by the valuers in performing their valuation, by cross referencing to available market data for similar properties within the region (e.g.: value of developed and undeveloped land)
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We have also considered whether any specific changes to assets (which would impact its value) have been communicated to the valuer;
- ▶ Performing a reasonableness review on the valuation of assets not included in the 2018/19 valuation cycle, via reference to the NAO commissioned Local Government Gerald Eve report. This is performed to confirm that the remaining asset base is not materially misstated;
- ▶ Considering changes to useful economic lives as a result of the most recent valuation;
- ▶ Considering whether asset categories held at cost have been assessed for impairment and are materially correct; and
- ▶ Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

Our audit procedures above have not identified any material differences in the financial statements. However we did identify a non-material misclassification of the Peterborough Town Hall which we are currently discussing with officers.

In addition, during our work on PPE we identified that £21.7m of asset disposal had been omitted from the accounts in error. We have included this in Section 5 on Audit Differences and we are satisfied from our work on disposals that there are no other significant omissions.



## Areas of Audit Focus



### Other Areas of Audit Focus - Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2019 this totalled £322 million (£271 million at 31 March 2018).

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach has focused on:

- ▶ Liaising with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Peterborough City Council;
- ▶ Assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

At the time of our draft Audit Results Report, we were still waiting for assurance from the pension fund auditor. The Authority has also requested that actuary re-runs the IAS 19 report for any changes relating to investment movement and McCloud ruling which we have highlighted on page 6 of this report.



# Areas of Audit Focus



## Other Areas of Audit Focus - New accounting standards

The Code requires the Authority to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

- ▶ IFRS 9 - Financial instruments
- ▶ IFRS 15 - Revenue from contracts
- ▶ IFRS 16 - Leases

There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

Standard	Audit Findings
IFRS 9 - Financial Instruments	Our audit procedures for financial instruments did not identify any audit issues.
IFRS 15 - Revenue from Contracts	Our audit procedures for revenue from contracts did not identify any audit issues.
IFRS 16 - Leases	IFRS 16 replaces IAS 17 Leases and its related interpretations, it will apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority. We have considered the Authority's implementation plan and preparedness for IFRS 16. The Authority have already considered their completeness of leases and identifying those that may require reclassifying. We therefore believe the Authority is well placed to address the implications of IFRS 16.

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below:

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being (2019/20 Code Cpt 2.1 refers);
  - new definitions of assets, liabilities, income and expenses
  - updates for the inclusion of the recognition process and criteria and new provisions on de-recognition
  - enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (2019/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (2019/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (2019/20 Code Cpt 9 refers).



# 04 Audit Report



# Audit Report

## Our draft opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETERBOROUGH CITY COUNCIL

#### Opinion

We have audited the financial statements of Peterborough City Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, the related notes 1 to 46, the Collection Fund and the related notes 1 to 4, and the Statement of Accounting Policies.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Peterborough City Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Audit Report

## Our draft opinion on the financial statements

### Other information

The other information comprises the information included in the Statement of Accounts 2018/19 set out on pages 2 to 123, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Peterborough City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



# Audit Report

## Our draft opinion on the financial statements

### Responsibility of the Chief Financial Officer

As explained more fully in the Statement of Responsibilities set out on page 21, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Peterborough City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Peterborough City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.



# Audit Report

## Our draft opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Peterborough City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

## Use of our report

This report is made solely to the members of Peterborough City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Suresh Patel (Key Audit Partner)*  
*Ernst & Young LLP (Local Auditor)*  
*Cambridge*  
*31 July 2019*



# 05 Audit Differences





## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

There was one material adjusted audit difference, at the time of our draft audit results report. We highlight the following misstatement greater than £7.0 million which has been corrected by management that was identified during the course of our audit:

Understatement of property, plant and equipment disposals:

- ▶ Debit: Other Operating Income - Losses on Disposal of Non-Current Assets = £21.7 million
- ▶ Credit: Balance Sheet - Property Plant and Equipment = £21.7 million

This error was identified as part of our reconciliation work between the fixed asset register, the Authority records and the statement of accounts.

There were no uncorrected misstatements identified as part of our audit.

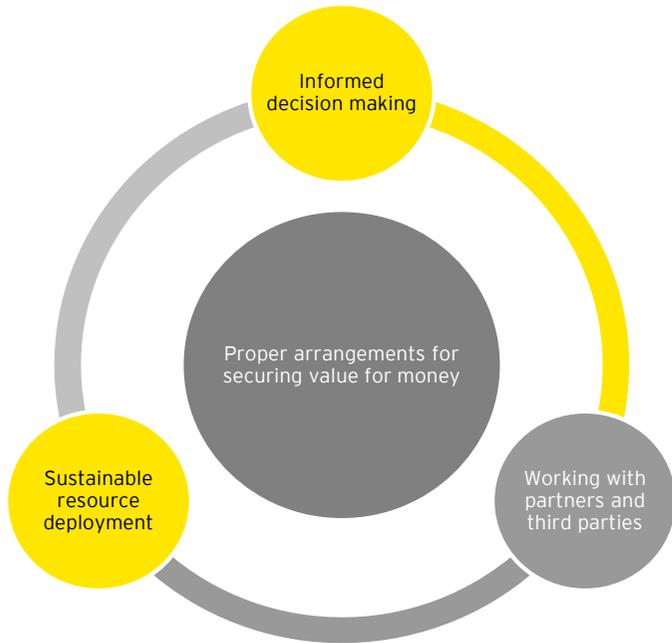


# 06 Value for Money Risks



# Value for Money

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## Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risk in our audit plan as well as one risk identified since then and any other significant weaknesses or issues we want to bring to your attention.

We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources. However, we do highlight to the Committee the significant challenges faced by the Authority to secure its long term financial resilience in light of national and local pressures, some of which the Authority has control and influence over and others where it has less.



## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:  
*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We present below the findings of our work in response to the risks areas in our audit plan as well as the additional risk identified since then.

<b>What is the significant value for money risk?</b>	<b>What arrangements did the risk affect?</b>	<b>What are our findings?</b>
<p>We reported in the previous year our views on the financial resilience of the Authority and in particular the scale of the financial challenge it faces. Like most local authorities, the Authority’s finances continue to be stretched. There are significant gaps in the budget over the period of the Medium Term Financial Strategy. The cumulative budget gap to 2020/21 is £20.7million and this also includes the successful delivery of £72.3 million of savings up to that period. Whilst the Authority is taking action to identify ways to bridge the gaps, there remains a significant risk to its financial resilience.</p>	<ul style="list-style-type: none"> <li>▶ Take informed decisions</li> <li>▶ Deploy resources in a sustainable manner</li> </ul>	<p>The Authority has significant budget gaps over the next three years. The Authority has worked hard to close the gap for 2019/20 through the planned use of reserves, budget cuts and savings targets (some of which are non-recurrent). The Authority has built up reserve levels over the last three to five years and as at 31 March 2019 it had £37.2 million in General Fund and Earmarked reserves.</p> <p>The Authority has a good track record of underspends, and meeting savings targets. Although the Authority has significant budget gaps it has clear plans for how it will manage these in the short to medium term.</p> <p>Communication and explanation of the Medium Term Financial Strategy to Members and to the public has been transparent and realistic. The latest MTFS report presented to Cabinet on 11 June 2019 clearly sets out the approach the Authority is taking over the next three years; including implementation of a rolling budget in 2019/20 to be executed in three tranches through the year, enabling a more flexible approach. The report also sets out the challenges and difficult decisions that will need to be made.</p> <p>Whilst the Authority has sound arrangements in place, the size of the challenge in the longer term is significant with a £20.7 million cumulative gap for 2021/22. A number of these challenges are driven by national policy and decisions outside of the control of the Authority. As such there remain risks around the longer term financial resilience of the Authority.</p>

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## Value for Money Risks

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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p><b>Procurement arrangements following the Authority's review of the 2014 IT Strategy</b></p> <p>During the year the Authority informed us of issues that they had identified with the formation of the 2014 IT Strategy and its delivery, in particular in respect of procurement arrangements. We updated our value for money risk assessment to recognise this as a significant risk and have carried our appropriate procedures to inform our value for money conclusion.</p>	<ul style="list-style-type: none"> <li>▶ Take informed decisions</li> <li>▶ Working with Partners and Other Third Parties</li> </ul>	<p>We have reviewed information provided by the Authority on its internal consideration of issues with the formation of the 2014 IT Strategy and its delivery, specifically in relation to the procurement arrangements in operation at that time and were followed to award related contracts. The Authority's internal review has identified evidence that some procurement arrangements were not followed appropriately. We have considered these matters against the two aspects of value for money arrangements.</p> <p>We have reviewed the Authority's contract register and sought assurances over the appropriateness of the related procurement arrangements for a sample of contracts. Whilst we have identified a need for the Authority to ensure it's contract register is up to date, from our review we were satisfied that expected procurement arrangements were in place.</p> <p>In the latest version of the Annual Governance Statement (2 July) the Authority has made reference to this matter.</p> <p>We note that the Authority has asked internal audit to carry out a review of contracts in 2019/20.</p> <p>We have concluded that the arrangements for 2018/19 were in place.</p>



# 07 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the latest version of the Annual Governance Statement (2 July) and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the time of writing, we had only just received the Group Audit instructions from the NAO. We will complete this work in August ahead of the deadline of 13 September 2019.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



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# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. However we have identified some areas for improvement:

- ▶ Controls should be implemented that reconcile the schools payroll balances to the Authority's general ledger system;
- ▶ The Authority's housing benefits risk based verification policy should be formally approved annually as per the housing benefit and council tax benefit circular S11/2011 paragraph 15; and
- ▶ There were some omissions on the Authority's contracts register. Therefore we would recommend regular review to ensure this is up-to-date.



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# Data Analytics



# Use of Data Analytics in the Audit

## Data analytics – Journal Entry Analysis and Payroll Analysis

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all the financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit plan.

#### Payroll Analysis

We also use our journal entry analyser in our payroll testing of the non-schools payroll. We obtain all payroll transactions posted in the year from the general ledger system and perform completeness analysis over the data, including reconciling the total amount to the payroll system. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



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Independence

# Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan dated 30 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 15 July 2019.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

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## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£
<b>Total Audit Fee - Code work (Note 1)</b>	<b>TBC</b>	<b>83,570</b>	<b>115,283</b>
Non-audit work - Housing Benefit Subsidy Claim (Note 2)	N/A	N/A	20,827

*All fees exclude VAT*

**Note 1:** We have performed additional work as a result of the risks identified in this audit results report. This will result in an additional audit fee which we will seek to agree with the S151 officer and PSAA and reported to the Audit Committee at a later date.

**Note 2:** The Authority has appointed a new provider for the 2018/19 housing benefit subsidy claim.



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## Appendices

## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

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Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, plant and equipment	Substantively test all relevant assertions	Substantively tested all relevant assertions	No change
Short term debtors			
Short & long term borrowing			
Short & long term creditors			
Other long term liabilities			
Capital grants received in advance			
Reserves			

## Appendix B

# Summary of communications during 2018/19

Date 	Nature 	Summary 
September 2018 - April 2019	Calls and meetings	EY held several calls and meetings with the S151 to discuss the PCC review of the 2014 IT strategy and delivery procurement arrangements
25 October 2018	Meeting	EY attended a planning meeting with S151 officer and the finance team.
19 November 2018	Meeting	EY attended the Audit Committee to present an outline audit plan for discussion indicating significant risks and areas of audit focus.
12 February 2019	Meeting	EY attended the Audit Committee to present the final audit plan.
3 June 2019	Meeting	EY attended a meeting around capital receipts with S151 officer.
11 June 2019 18 June 2019	Meeting	Audit team held meetings with the finance team to discuss audit progress and agree any findings.
20 June 2019	Call	Suresh Patel caught up with S151 around some of the VfM work.
15 July 2019	Meeting	EY attended Audit Committee to present this Audit Results Report (ISA 260 report).

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In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

## Appendix C

# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - February 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - February 2019
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report - July 2019

# Appendix C

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		Our Reporting to you
Required communications	 What is reported?	 When and where
Major Local Authorities	<p>For the audits of financial statements of public interest entities our written communications to the Audit Committee include:</p> <ul style="list-style-type: none"> <li>▶ A declaration of independence</li> <li>▶ The identity of each key audit partner</li> <li>▶ The use of non-member firms or external specialists and confirmation of their independence</li> <li>▶ The nature and frequency of communications</li> <li>▶ A description of the scope and timing of the audit</li> <li>▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>▶ Materiality</li> <li>▶ Any going concern issues identified</li> <li>▶ Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee</li> <li>▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>▶ The valuation methods used and any changes to these including first year audits</li> <li>▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>▶ The completeness of documentation and explanations received</li> <li>▶ Any significant difficulties encountered in the course of the audit</li> <li>▶ Any significant matters discussed with management</li> <li>▶ Any other matters considered significant</li> </ul>	Audit Plan - February 2019 and Audit Results Report - July 2019

# Appendix C

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		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Peterborough City Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - July 2019
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Audit Results Report - July 2019

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures, Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit Results Report - July 2019
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> </ul>	Audit Plan - February 2019 and Audit Results Report - July 2019

## Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> <li>▶ Details of any inconsistencies between the Ethical Standard and Authority's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
185	External confirmations	We have received all requested confirmations
	Consideration of laws and regulations	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
	Significant deficiencies in internal controls identified during the audit	Audit Results Report - July 2019

## Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report - July 2019
Material inconsistencies or misstatements	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report - July 2019
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - July 2019
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - February 2019 and Audit Results Report - July 2019



## Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead]

X July 2019

Suresh Patel  
Associate Partner

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

Dear Suresh

This letter of representations is provided in connection with your audit of the financial statements of Peterborough City Council ("the Council") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Peterborough City Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls or significant contracts between the Council and third parties, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.



## Management representation letter

### Management Rep Letter

#### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 1 April 2018 to the most recent meeting on the following date: 15 July 2019.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the 31 March 2019 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 42 to the financial statements all guarantees that we have given to third parties.

#### E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

#### H. Estimates

Minimum Revenue Provision  
 Pensions Liability  
 Private Finance Initiative  
 Property, plant and equipment/Investment Properties – valuations and impairment  
 Provision for impairment of receivables

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

#### I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

.....  
 Acting Corporate Director of Resources      Date .....

.....  
 Chair of the Audit Committee      Date .....

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ED None

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